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GOI Budget 2012-13 - Agricultural Highlights

Report Categories:

Agriculture in the Economy

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Approved By:

Allan Mustard

Prepared By:

Santosh Singh

Report Highlights:

The Indian fiscal year (IFY) 2012/13 budget increases Ministry of Agriculture authority by 19 percent for spending on agricultural support to INR 176.9 billion (\$3.5 billion), roughly 10 percent greater than the rate of inflation. With a few exceptions the budget consists of continuation and slight expansion of existing programs. The allocation for irrigation (Ministry of Water Resources) is tripled, to INR 10.82 billion (\$216.4 million). The budget is intended to support growth of the agricultural sector of 4% per annum during the 12th Five Year Plan (2012-2017), a necessary condition if the Indian government's overall GDP growth target is to be met, as well as reduction of post-harvest losses by expanding food grain storage and promoting food processing.

General Information:

Introduction

On March 16, 2012, Finance Minister Pranab Mukherjee presented the Government of India's (GOI) Budget for Indian fiscal year (IFY) 2012/13 (April/March) in the backdrop of a slowdown in the economy and government in a state of policy paralysis due to the pressures of coalition politics. In his budget speech, Minister Mukherjee said that despite the slowdown in the Indian economy, agriculture continued to perform well, growing at 2.5 percent in IFY 2011/12. He also noted that steps taken by the government in last two years to strengthen the food supply chain have helped more effective management of inflation and led to decline in food inflation in the recent months. The finance minister identified a need to "address supply bottlenecks in agriculture" as one of the five objectives to be addressed in IFY 2012/13 as India enters the first year of the 12th Five Year Plan (2012-17), which aims at "faster, sustainable and more inclusive growth". The budget and related documents can be found on the Internet at <http://indiabudget.nic.in/index.asp>.

Note: The Ministry of Agriculture budget does not include expenditures on many programs found in the budget of the U.S. Department of Agriculture, which in India are housed in other ministries. These include food and nutrition services (Ministry of Consumer Affairs, Food and Public Distribution), rural development (Ministry of Rural Development), and irrigation (Ministry of Water Resources). In addition, food processing matters are covered by the Ministry of Food Processing Industries, the budget of which is also separate.

Agriculture Remains a Priority

Agriculture retained its high priority in the budget with a planned allocation for agriculture and allied sectors raised by 19 percent to INR 176.9 billion (\$3.5 billion). The budget provides additional funds to several ongoing programs for enhancing agricultural production, irrigation management, higher farm credit and improving post-harvest storage and processing infrastructure.

Table 1. India: Selected Agricultural and Food-Related Budget Items				
Ministry of Agriculture, billion Indian rupees				
	2010- 2011 Actual	2011- 2012 Budget	2011- 2012 Revised	2012- 2013 Budget
Crop Husbandry	98.13	78.91	74.31	90.34
Soil and Water Conservation	0.14	0.15	0.16	0.16
Animal Husbandry	7.15	9.50	7.50	10.63
Dairy Development	0.85	2.23	1.84	3.53
Fisheries	2.91	2.70	2.83	3.00
Forestry and Wildlife	9.29	7.85	7.82	9.07
Plantations	4.74	4.15	4.39	4.46
Food, Storage and Warehousing	5.02	6.44	6.34	7.87
Agricultural Research and Education	25.22	24.92	25.70	28.98
Co-operation	1.03	2.22	1.17	1.25
Other Agricultural Programs	2.68	8.36	16.48	17.64

TOTAL	157.16	147.44	148.55	176.92
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Ministry of Rural Development, billion Indian rupees

	2010- 2011 Actual	2011- 2012 Budget	2011- 2012 Revised	2012- 2013 Budget
Special Programs for Rural Development	51.20	49.17	44.96	63.09
Rural Employment	358.41	400.00	310.00	330.00
Land Reforms	1.56	1.35	0.99	1.35
Other Rural Development Programs	9.43	12.40	35.38	13.19
TOTAL	420.60	462.92	391.32	407.63

Ministry of Water Resources, billion Indian rupees

	2010- 2011 Actual	2011- 2012 Budget	2011- 2012 Revised	2012- 2013 Budget
Major and Medium Irrigation	1.72	2.74	2.23	7.45
Minor Irrigation	0.91	1.30	1.39	3.37
Flood Control and Drainage	2.13	1.61	1.27	1.93
TOTAL	4.76	5.65	4.89	12.75

Non-Plan Expenditures, billion Indian rupees

	2010- 2011 Actual	2011- 2012 Budget	2011- 2012 Revised	2012- 2013 Budget
Fertilizer Subsidies	623.01	499.98	671.99	609.74
Food Subsidies	638.44	605.73	728.23	750.00
Debt Relief for Farmers	113.40	60.00	15.00	-
Agriculture and Allied Services	52.79	38.19	36.05	35.58
Irrigation and Flood Control	3.70	3.85	3.86	3.96

Interest Subsidies, billion Indian rupees

	2010- 2011 Actual	2011- 2012 Budget	2011- 2012 Revised	2012- 2013 Budget
Interest Subvention for Providing Short-Term Credit to Farmers	35.31	48.68	40.00	60.00
Interest Subvention to Co-operative Sugar Mills through NABARD	0.32	0.30	0.35	0.31

Other Subsidies, billion Indian rupees				
	2010- 2011 Actual	2011- 2012 Budget	2011- 2012 Revised	2012- 2013 Budget
Subsidy on Import of Pulses	4.50	3.00	2.50	3.00
Subsidy on Import of Edible Oils	5.13	3.66	3.66	6.15
Subsidy on Maintenance of Buffer Stock of Sugar	0.88	0.50	0.50	0.17
Reimbursement of shortages in handling of imported fertilizers by Food Corporation of India	0.00	-	0.00	-
Scheme for Extending Financial Assistance to Sugar Undertakings - 2007	5.38	0.81	0.47	0.52
Grant to NAFED for MIS/PSS	0.98	2.00	1.10	1.10
Other Programs for Development of Textile-Procurement of Cotton by Cotton Corporation of India under Price Support	12.17	2.00	2.00	2.00
Other Programs for Development of Jute, etc., Subsidy to Jute Corporation of India towards Market Operation	0.30	0.37	0.55	0.55

Source: Expenditure Budget Vol. 1, 2012-2013, Government of India.

Totals may not equal sum of line items due to rounding.

- indicates less than 0.01 billion rupees.

Exchange rate: 50.5 rupees = \$1.00 on March 22, 2012

Augment Agricultural Production

The government will continue ongoing programs focused on providing incentives to farmers to increase agricultural production (see IN1121). However, some of the programs received higher allocations in the budget:

- INR 10 billion (\$199 million) is allocated for the “Bringing Green Revolution to Eastern India” initiative, compared to INR 4.0 billion (\$80 million) in 2011/12.
- The National Dairy Plan with INR 22.4 billion (\$446 billion) World Bank assistance is to be launched to improve the productivity of dairy sector (See IN2031)
- Allocation of INR 5 billion (\$99.6 million) is provided to broaden the scope of fish production to include coastal aquaculture from freshwater aquaculture. An additional allocation is also made

for poultry, swine, and goat production.

- Allocation of INR 2.0 billion (\$40 million) is made for incentivizing agricultural research, both for the institutions and research teams, responsible for scientific breakthroughs that could lead to increased crop productivity and resistance to climate change.

Expand Rural Credit

- The target for institutional credit flow to farmers for 2012/13 was raised by over 21 percent to INR 5,750 billion (\$115 billion). A short term Regional Rural Bank Refinance Fund will be set up to enhance the capacity of the Regional Rural Banks (RRBs) to disburse crop loans to small and medium farmers. The government will allocate INR 100 billion (\$2 billion) to the National Bank for Agricultural and Rural Development (NABARD) for refinancing the RRBs through this fund.
- The interest subvention scheme for providing short term crop loans at 7 percent interest will be continued in 2012/13. The additional subvention of 3 percent for farmers repaying the loan in time will also continue.
- The 3-percent interest subvention on post-harvest loans up to 6 months against negotiable warehouse receipts will be available to farmers. This will encourage farmers to keep their products in warehouses, providing pricing power to farmers and reducing post-harvest losses due to distress sale during peak harvest.
- The existing *Kisan* (farmer) Credit card, an instrument for making agricultural credit available to farmers, will be modified to smart cards that can be used in ATMs.

Develop Irrigation

In the budget speech, Finance Minister called attention to the threat of water stress affecting agriculture production in the near future, and the need to focus on micro irrigation schemes to dovetail with water harvesting schemes. In general the budget for irrigation is tripled, INR 10.82 billion (\$216.4 million). Some of the specific schemes announced in the budget are:

- Allocation for [Accelerated Irrigation Benefit Programme](#) (AIBP) is raised by 13 percent to INR 142.42 billion (\$2.8 billion). The government will make structural changes to the AIBP to maximize the flow of benefits from investments in irrigation projects.
- To mobilize resources to fund irrigation projects, a government-owned Irrigation and Water Resource Finance Company is to be set up that would focus on financing sub-sectors like micro-irrigation, contract farming, and wastewater management.
- Allocation of INR 3 billion (\$60 million) to Intensified Irrigation Development Program specifically for the Vidarbha region in Maharashtra, which has been suffering from the farm crisis and farmer suicides over the last few years.
- Allocation of INR 4.4 billion (\$87.6 million) for a flood management program in Murshidabad district in the state of West Bengal.

Support Food Processing, Storage and Market Infrastructure

- The food processing sector has been growing at an average of over 8 percent in the last five years. For better outreach and flexibility for meeting the local needs, the government will launch the “National Mission on Food Processing” in cooperation with the state governments.

- Due to rapidly rising government food grain procurement under the Minimum Support Price (MSP) programs for the Public Distribution System (PDS), the Indian government has taken steps to create additional food grain storage capacity over the last few years. About 2 million tons of storage capacity in the form of modern silos has already been approved. In addition about 15 million tons is being created under the [Private Entrepreneur Guarantee Scheme](#), of which about 3 million tons will be added by the end of March 2012 and another 5 million tons by the end of March 2013.
- An allocation of INR 50 billion (\$1 billion) is marked for creating warehousing facilities under the Rural Infrastructure Development Fund.
- The government has allowed investment in irrigation, terminal markets, common infrastructure in agriculture markets, soil testing laboratories and capital investment in fertilizer production to be eligible for the [Viability Gap Funding Scheme](#). The scheme provides financial support in the form of grants to infrastructure projects taken under the public private partnership mode to make them commercially viable.
- Investment-linked deduction of capital expenditure has been enhanced to 150 percent against the current rate of 100 percent for cold chain facilities, warehousing for food grain and sugar, fertilizer manufacturing, and beekeeping/production of honey and beeswax.

Merge Agriculture Development Programs

Finance Minister informed that the government intends to merge the existing agriculture development activities in [Rashtriya Krishi Vikas Yojana](#) (National Agriculture Development Scheme) and a set of missions, which are:

- **National Food Security Mission (NFSM)** which aims to bridge the yield gap of food grains and fodder. The ongoing Integrated Development of Pulses Villages, Promotion of Nutri-cereals, and Accelerated Fodder Development Program will be merged in NFSM.
- **National Mission on Sustainable Agriculture including Micro Irrigation** currently taken as a part of the National Action Plan on Climate Change will be merged with the Rainfed Area Development Programme.
- **National Mission on Oilseeds and Oil Palm** with the aim of increasing production and productivity of oilseeds and oil palm.
- **National Horticulture Mission** aims at horticulture diversification and will include an initiative on saffron.
- **National Mission on Agricultural Extension and Technology** will focus on adoption of appropriate technologies by farmers for improving farm productivity and efficiency.

Import Duty on Agriculture/Food Products Largely Unchanged...

The 2012 budget left the basic import duties on most agricultural products unchanged, except for soy products, including protein and protein extracts, for which the import duty was lowered to 10 percent.

..but Lowered for Agriculture Machinery/Processing Equipment

Carrying forward the initiatives for supporting farm-to-market initiatives in agriculture and agro-processing from the previous budgets (See IN1121 and IN1014), the government lowered the import duties on following:

- Basic import duty reduced from 7.5 to 2.5 percent on sugarcane planters, tuber crop harvesters, rotary tillers, weeders and coffee plantation and processing machinery
- Basic concessional import duty of 5 percent is extended to project imports for green houses and protected cultivation for horticulture/floriculture, and installation of mechanized handling systems and pallet racking systems in market yards or warehouses for horticultural products.
- The basic import duty is reduced on some water soluble fertilizers and liquid fertilizers, other than urea, from 7.5 to 5 percent and from 5 percent to 2.5 percent.

Excise/Countervailing Duty Raised

The Indian government raised the standard excise tax on manufactured products from 10 percent to 12 percent due to concerns about the rising fiscal deficit and the need to raise revenue. Most processed agricultural and food products (except for some products in chapters 17-21), which generally face excise taxes below 10 percent, have had the excise tax rate raised from 1 percent to 2 percent and 5 percent to 6 percent, respectively. The excise taxes are also levied on imported products at the port of entry as a countervailing duty.

Food Subsidy Mounts as National Food Security Act Remains in Limbo

The finance minister in his budget speech stated that from 2012/13 on food subsidies and additional expenses for administering the proposed National Food Security Act will be fully provided. An increase in the support price of wheat and rice, without any offsetting increase in the government sales price of these commodities through the public distribution system (PDS), has resulted in significant increases in the GOI food subsidies in the recent years (See IN2026). The 2012 budget estimates the food subsidy for IFY 2012/13 at INR 750 billion (\$15 billion) compared with the last year's revised estimate of Rs. 728.2 billion (\$14.5 billion). This clearly indicates the government has not budgeted for implementation of the National Food Security Act in this fiscal year.

On December 22, 2011, the Indian cabinet submitted the proposed National Food Security Bill (NFSB) to the Parliament. If passed in its current form the NFSB will create a legal entitlement to subsidized food grains for 63.5 percent of India's population, and will annually cost over INR 1 trillion (\$20 billion) at the current cost of procurement of food grain (IN 1213). However, several state governments and political parties (including member parties of the ruling United Progressive Alliance) have objected to certain provisions of the bill. The NFSB has been referred to a standing parliamentary committee for review after consultations with various stakeholders. Given the current government policy stalemate, the bill is unlikely to be passed and implemented in IFY 2012/13. Even if the NFSB is not implemented, the food subsidy bill is likely to exceed the current allocation of INR 750 billion (\$15 billion) on higher minimum support price of wheat and rice in IFY 2011/12 and 2012/13 (forecast).

Fertilizer Subsidy Also Rise Despite Reform Measures

Despite the government's shifting to the "nutrient-based subsidy" policy in 2010/11, which was expected to promote balanced fertilization and lower subsidies, fertilizer subsidies have continued to

escalate. The 2012 budget estimates the fertilizer subsidy for 2011/12 at Rs. 672 billion (against INR 500 billion allocation in the last budget), and has allocated INR 609.7 billion for 2012/13 as it pursues measures to improve disbursement of the fertilizer subsidy.

In 2012/13, the government plans to implement a [mobile-based Fertilizer Management System](#) designed to provide end-to-end information on the movement of fertilizers and subsidies from manufacturer to the retail level. The system will be used for direct transfer of subsidy payments to the retailers, and eventually farmers will be phased in. The government expects this system to benefit farmers while reducing expenditures on subsidies by curtailing misuse.

Foreign Direct Investment in Multi-Brand Retail on Hold

The finance minister announced that the decision to allow foreign direct investment (FDI) in multi-brand retail trade of up to 51 percent, subject to compliance with specific conditions, has been held in abeyance, as efforts are underway to arrive at a broad based consensus in consultations with state governments.

On November 24, 2011, the government approved up to 51-percent FDI in multi-brand retail (IN1208) but had to suspend its implementation (IN1211) due to strong opposition from local traders and various political parties, including parties that are part of the ruling UPA coalition. Although the government's pre-budget economic survey clearly spelled out the need to leverage FDI in retail to bridge the significant investment gaps in post-harvest handling infrastructure, no favorable decision is likely in the near future due to political opposition.

Post Comments

The ruling UPA government has been reeling from the poor showing in recent state legislative elections, increasing pressure from the minor alliance parties. When coupled with high-profile corruption scandals over the last year, and the slowdown in economic growth, the government is scarcely in a position to push a reformist budget agenda. Consequently, the 2012/13 budget abstains from either significant policy reforms or populist programs, and focuses on fiscal consolidation of existing, ongoing programs. Observers have variously referred to it as a "realistic", "status quo" or "survival" budget.

The finance minister's budget speech, budget documents and pre-budget *Economic Survey* of IFY 2012/13 can be accessed at <http://indiabudget.nic.in/index.asp>.